

**Testimony of  
Marie E. Kozel**

BEFORE THE DELAWARE PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF )  
CHESAPEAKE UTILITIES CORPORATION )  
FOR APPROVAL OF A CHANGE IN ITS ) P.S.C. DOCKET NO. 13-  
GAS SALES SERVICE RATES ("GSR") )  
TO BE EFFECTIVE NOVEMBER 1, 2013 )

DIRECT TESTIMONY OF MARIE E. KOZEL

On Behalf of Chesapeake Utilities Corporation

Delaware Division

Submitted for filing: September 3, 2013

1 Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS  
2 ADDRESS.

3 A. My name is Marie E. Kozel, and I am a Gas Supply Analyst II with  
4 Chesapeake Utilities Corporation ("Chesapeake" or "the Company"). My  
5 business address is 350 S. Queen Street, Dover, Delaware 19904.

6

7 Q. DESCRIBE BRIEFLY YOUR EDUCATION AND RELEVANT  
8 PROFESSIONAL BACKGROUND.

9 A. I received a Bachelor of Science Degree in Finance with a minor in  
10 English from La Salle University in Philadelphia, Pennsylvania and a  
11 Masters of Business Administration from Wilmington University in  
12 Wilmington Delaware. I have more than 20 years of progressively  
13 responsible experience in financial analysis. I was hired by Chesapeake  
14 Utilities Corporation in November 2007. My responsibilities are inclusive  
15 of all matters associated with gas supply and its procurement for  
16 Chesapeake Utilities Corporation. Immediately prior to joining  
17 Chesapeake, I was employed by ING Financial Services in West Chester,  
18 PA as Senior Financial Analyst in Operational Risk Management for the  
19 Retail Life Division, where I performed audits for the purpose of  
20 compliance with the Sarbanes Oxley Act of 2002. My responsibilities also  
21 included the implementation of operational risk management objectives,  
22 exposure analysis and awareness education for divisional staff. I have

1 also held positions with JP Morgan Chase and Radian Guaranty Inc.,  
2 where I was responsible for revenue and expense analysis, budget  
3 preparation and staff management.  
4

5 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE DELAWARE  
6 PUBLIC SERVICE COMMISSION ("COMMISSION")?

7 A. I have filed testimony in the last five Gas Sales Service Rate ("GSR")  
8 proceedings and have testified before the Maryland Public Service  
9 Commission in gas cost recovery proceedings as well.  
10

11 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS  
12 PROCEEDING?

13 A. The purpose of my direct testimony in this GSR application is to provide  
14 support for the gas costs used in the calculation of the Delaware Division's  
15 three proposed Gas Sales Service Rates to be effective with service  
16 rendered on and after November 1, 2013. My direct testimony will also  
17 discuss the Company's gas supply and procurement activities as required  
18 by Commission Order No. 4767 issued on April 14, 1998 in the  
19 Company's Gas Sales Service Rate filing in Docket No. 97-294F.  
20

21 Q. ARE THERE ANY SCHEDULES INCLUDED WITH YOUR DIRECT  
22 TESTIMONY?

1 A. No. In my direct testimony, I will address Schedule L, which is a summary  
2 of Chesapeake's demand and capacity entitlements to be effective  
3 November 2013 and Schedule M, which is a chart of the Delaware  
4 Division's load and supply projections for the upcoming determination  
5 period. Both schedules are attached to the direct testimony of Sarah E.  
6 Hardy.

7

8 Q. WHAT PIPELINE SUPPLIERS ARE CURRENTLY PROVIDING  
9 SERVICES TO THE DELAWARE DIVISION?

10 A. The Delaware Division is currently receiving a mix of transportation and  
11 storage services from five interstate pipeline suppliers. These five pipeline  
12 suppliers are Transcontinental Gas Pipe Line Company, LLC ("Transco"),  
13 Columbia Gas Transmission, LLC ("Columbia"), Columbia Gulf  
14 Transmission Company ("Columbia Gulf"), Texas Eastern Transmission,  
15 LP ("TETCO") and Eastern Shore Natural Gas Company ("ESNG").

16

17 Q. WHAT WERE THE DELAWARE DIVISION'S CAPACITY  
18 ENTITLEMENTS ON UPSTREAM PIPELINES DURING THE LAST  
19 WINTER SEASON?

20 A. Schedule L represents the Delaware Division's winter season upstream  
21 capacity entitlements that were effective November 1, 2012. The  
22 maximum daily upstream entitlements were 74,753 Dts/day.

1 Q. HAS THE DELAWARE DIVISION CHANGED ITS CAPACITY  
2 ENTITLEMENTS ON ANY OF THESE PIPELINES SINCE THE LAST  
3 GSR PROCEEDING?

4 A. Yes. The Delaware Division anticipates an additional 1,100 Dts/day of  
5 firm transportation capacity on ESNG effective November 1, 2013. The in-  
6 service date for this project was originally slated for November 1, 2012,  
7 but was rescheduled due to a delay in federal authorizations. This  
8 capacity was requested in various delivery point areas ("DPAs") in western  
9 Kent County and western Sussex County, Delaware as a result of design  
10 day analysis that indicated the existence of continued design day  
11 deficiencies in these respective geographic areas of the distribution  
12 system. This capacity will ensure overall system reliability and  
13 deliverability on a design day. The Company anticipates additional  
14 capacity of 4,100 Dts/day related to the Texas Eastern Appalachia to  
15 Market 2012 Project ("TEAM 2012") to become available November 1,  
16 2013 on TETCO. This additional upstream capacity on TETCO is directly  
17 correlated to ESNG capacity that is already in service and is projected to  
18 eliminate the Company's need to seek bundled peaking supplies. The  
19 Company has also elected to discontinue Liquefied Natural Gas Storage  
20 Service ("LGA") provided by ESNG as of the expiration of the contract  
21 term, October 31, 2013. Schedule L shows the Delaware Division's  
22 anticipated capacity entitlements effective November 1, 2013. These



1 entitlements were used in the calculation of fixed demand costs for this  
2 determination period.

3

4 Q. PLEASE PROVIDE INFORMATION ON CHESAPEAKE'S STORAGE  
5 SERVICES.

6 A. Chesapeake contracts for several different storage services which provide  
7 flexibility to meet customer needs. Currently, the Company includes three  
8 storage services in the Company's Asset Management Agreement  
9 ("AMA") and contracts for two storage services on ESNG. The storages  
10 included in the AMA are Washington Storage Service ("WSS"), Firm  
11 Storage Service ("FSS") and Eminence Storage Service ("ESS"). At the  
12 beginning of the AMA, storage balances were reconciled and transferred  
13 to the control of the Asset Manager. The Company designates quantities  
14 of gas to be injected or withdrawn from these storage services, however  
15 these quantities are understood to be paper transactions which may differ  
16 from the actual storage activity at any point in time since the AMA  
17 authorizes the Asset Manager, subject to the Company's designation of  
18 storage and tariff limitations, to withdraw and inject at its discretion. The  
19 Company retains the right to receive, on demand at the delivery point, the  
20 quantity of gas that it has requested. On a monthly basis, the paper  
21 balance for each storage service managed by the Asset Manager is  
22 reconciled. Withdrawals from WSS are anticipated in the monthly

1 baseload calculation because Transco Firm Transportation ("FT") capacity  
2 is utilized in order to flow WSS. Daily withdrawals from FSS during the  
3 winter season are anticipated but are not typically baseloaded. FSS is the  
4 Company's largest storage service and provides greater flexibility in  
5 scheduling with regard to changes in weather and unexpected fluctuations  
6 in demand. In addition FSS flows on Storage Service Transportation  
7 ("SST") contracts rather than utilizing FT contracts. Injections for FSS are  
8 typically baseloaded. The primary purpose of ESS is to provide the  
9 Company a supply option during weather emergencies, such as  
10 hurricanes, or other supply disruptions. It is the Company's policy to fill  
11 ESS by August 1 each year in order to be in a position to mitigate supply  
12 disruptions during hurricane season. As is the case with WSS, ESS  
13 requires the use of FT capacity to be transported. The two ESNG storage  
14 services are General Storage Service ("GSS") and Leidy Storage Service  
15 ("LSS"). GSS is a year round storage service and provides the Company  
16 swing capability throughout the year. LSS is a seasonal storage service,  
17 meaning that injections can only be made April through October and  
18 withdrawals are only available November through March. The Company  
19 tracks the storage levels of each storage service closely, in order to  
20 comply with the provisions established by each storage service Tariff. The  
21 Company previously had a third storage service contract with ESNG,  
22 Liquefied Natural Gas Storage Service ("LGA") that it has relinquished



1 effective October 31, 2013. LGA provided very little capacity. It was  
2 determined that the service was no longer a cost effective supply option  
3 and the Company decided not to renew the service agreement.

4  
5 Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF THE COMPANY'S GAS  
6 SUPPLY PROCUREMENT ACTIVITIES SINCE NOVEMBER 1, 2012.

7 A. The Company utilizes its Asset Manager for gas supply, procuring monthly  
8 baseload and spot purchases pursuant to the terms of its AMA. It is  
9 consistent with the Company's procurement practices to minimize its  
10 exposure to the volatility of the daily market during the winter season;  
11 therefore, most of the Company's gas supply costs during the winter  
12 months are based on fixed prices that are set prior to the beginning of the  
13 delivery month. The daily spot purchases referenced above are  
14 susceptible to daily market volatility. However, due to the varying nature  
15 of the Company's demand requirements, it is essential to have an element  
16 of spot supply to ensure the Company has the flexibility to comply with  
17 pipeline tariffs and operating requirements. During the period since  
18 November 2012, the Company procured firm supply to meet its demand  
19 requirements and maintain targeted storage inventory levels. A mix of  
20 pricing mechanisms, including commodity prices based on the published  
21 "Inside FERC" monthly index, the published "Gas Daily" midpoint and  
22 "triggers" based on New York Mercantile Exchange postings have been

1 used to mitigate the impact of market fluctuations on the commodity cost  
2 of gas during this period. Effective July 12, 2007, the Company  
3 implemented the parameters identified in the commodity procurement plan  
4 ("Plan") attached to the settlement agreement in PSC Docket No. 06-287F  
5 and amended as part of the settlement in Docket No. 09-398F. The  
6 parameters of the Plan dictate that the Company will enter into physical  
7 transactions for natural gas for the upcoming twelve-month period on the  
8 second Wednesday of each month. The Company has followed the  
9 guidelines set forth in the Plan.

10

11 Q. PLEASE BRIEFLY EXPLAIN THE RESULTS OF THE COMPANY'S  
12 NATURAL GAS PROCUREMENT PLAN SINCE NOVEMBER 1, 2012.

13 A. The Company's Natural Gas Commodity Procurement Plan will be  
14 discussed in a separate confidential filing to be submitted with the annual  
15 hedging report.

16

17 Q. PLEASE BRIEFLY EXPLAIN THE COMPANY'S RELATIONSHIP WITH  
18 ITS ASSET MANAGER AND THE SERVICES THAT ARE PROVIDED.

19 A. Chesapeake's previous Asset Management Agreement expired on March  
20 31, 2013. Prior to its expiration, the Company issued a request for  
21 proposal ("RFP") for natural gas supply and asset management related  
22 services. As a result of the submitted proposals and negotiations with the

1 respondents, the Company selected a new Asset Manager effective April  
2 1, 2013 for a two year term. The Company's Asset Manager provides  
3 capacity management, as well as supply and dispatch scheduling on  
4 pipelines upstream of ESNG, firm and interruptible gas supply, balancing  
5 of supply resources, and monthly accounting and reporting of  
6 transactions. The Company's firm customers benefit from the AMA, which  
7 provides the Company with access to reliable and flexible supply  
8 alternatives in addition to enhanced fixed cost recovery relating to the  
9 Company's transportation and storage entitlements. The guaranteed cost  
10 recovery achieved by the Company is reflected as a credit on the monthly  
11 supply invoice that is submitted by the Asset Manager. The Delaware  
12 Division's firm customers benefit from the value generated pursuant to the  
13 AMA through the Company's margin sharing mechanism.

14  
15 Q. WHAT ARE THE DELAWARE DIVISION'S PLANS REGARDING GAS  
16 SUPPLY FOR THE UPCOMING WINTER SEASON OF 2013-2014?

17 A. The Company has prepared demand projections for the upcoming winter  
18 season of 2013-2014, which is visually represented by Schedule M. It  
19 expects to meet those demand projections with supply purchases of  
20 baseload, daily spot, and storage service. Approximately 50% of the  
21 winter's expected requirements will have been procured utilizing the  
22 Company's Natural Gas Commodity Procurement Plan. The Company's

1 agreement with its Asset Manager ensures the availability of a supply  
2 resource to supplement supply and storage already procured to meet the  
3 forecasted demand requirements. Chesapeake will continue to maintain  
4 "no requirements" contracts with several natural gas suppliers to ensure  
5 that alternative gas supply sources are readily available in the event they  
6 are needed. These contracts can provide firm gas supply upon the  
7 execution of confirmations by both parties.

8

9 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

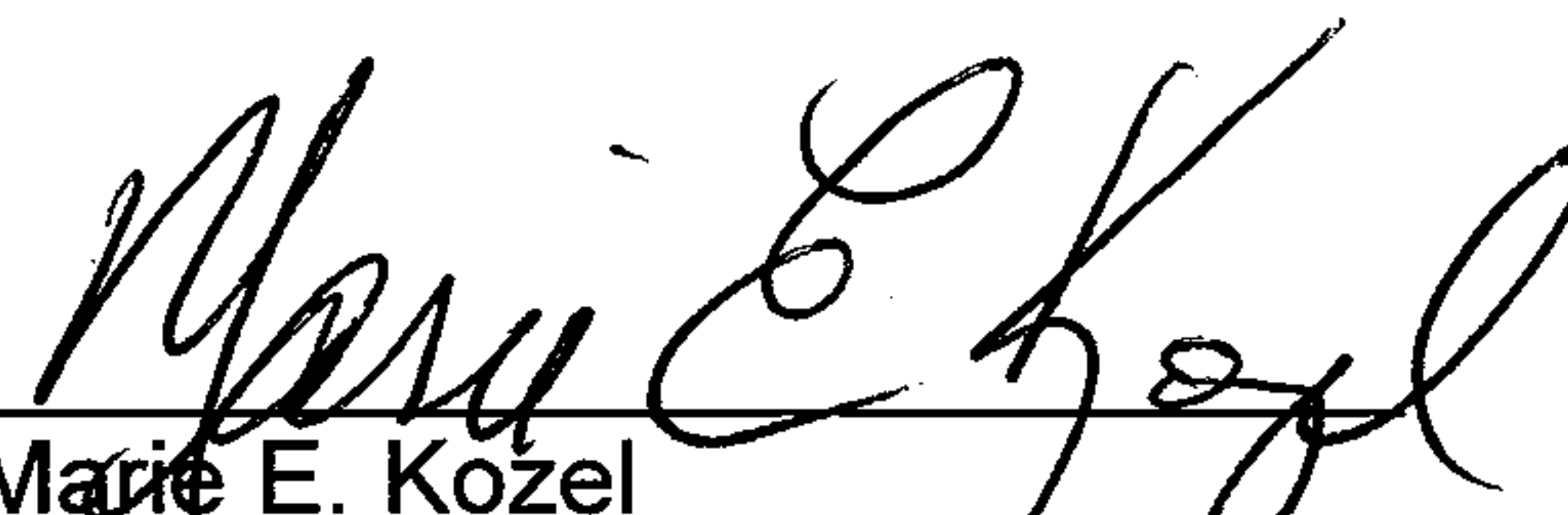
10 A. Yes, it does.

DATED: SEPTEMBER 3, 2013

STATE OF DELAWARE     )  
                                      )  
COUNTY OF KENT         )

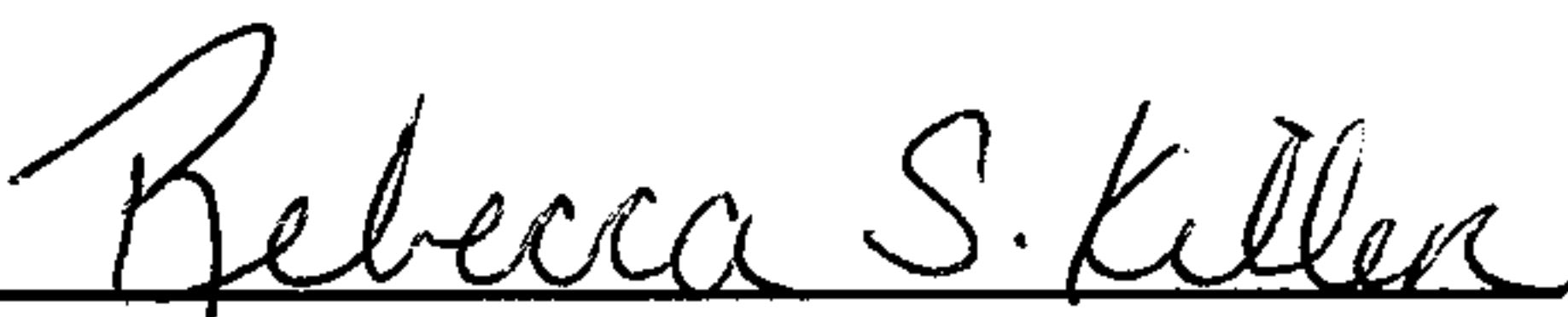
AFFIDAVIT OF MARIE E. KOZEL

MARIE E. KOZEL, being first duly sworn according to law, on oath deposes and says that she is the witness whose testimony appears as "Chesapeake Utilities Corporation, Delaware Division, Direct Testimony of Marie E. Kozel"; that, if asked the questions which appear in the text of the direct testimony, she would give the answers that are therein set forth; and that she adopts this testimony as her sworn direct testimony in these proceedings.

  
Marie E. Kozel

Then personally appeared this 3rd day of September 2013 the above-named Marie E. Kozel and acknowledged the foregoing Testimony to be her free act and deed. Before me,



  
Notary Public  
My Commission Expires: